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RUEHBJ/AMEMBASSY BEIJING 1928
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RUEHIL/AMEMBASSY ISLAMABAD 2023
RUEHBUL/AMEMBASSY KABUL 1981
RUEHML/AMEMBASSY MANILA 0142
RUEHNE/AMEMBASSY NEW DELHI 2000
RHEHAAA/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC
RUEHKO/AMEMBASSY TOKYO 1617
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SUBJECT: DONORS TRY TO SPELL RELIEF IN TAJIKISTAN'S COTTON SECTOR

REF: A) DUSHANBE 224 B) 06 DUSHANBE 2247

DUSHANBE 00000239 001.2 OF 002

¶1. (SBU) Summary: World Bank-contracted agricultural economist Garry Christensen outlined a new World Bank approach to resolving Tajikistan's \$300 million cotton debt crisis -- an approach which could anger many farmers, but could garner the support of the Tajik government and investors. Infighting between the Asian Development Bank and the World Bank continues to hinder progress on the cotton reform "Roadmap," but agreement between the two development banks on debt resolution signals a giant leap forward. The good news for donors is that the development banks are not asking the U.S. or other donors for additional assistance to fund the process. End Summary.

"One-size-fits-all" approach

¶2. (SBU) Christensen told EconOff in a private meeting February 9 that the World Bank and Asian Development Bank have jointly decided to dispatch with the farm-by-farm approach to the cotton debt employed for the last year, and proceed with a "flat-rate" debt relief mechanism, assigning a fixed rate of debt payments per hectare of land. This means that each farmer would pay \$50 per hectare each year, for example, on all irrigated land, regardless of what crop they continue to grow in the future. Farmers are likely to deem this method inherently unfair, as it punishes farmers who have been steadily paying down their debt. These farmers may rightly dispute the new debt plan. However, the lack of financial records and poor cooperation from lending institutions and farmers doomed the individualized debt repayment plan.

¶3. (SBU) The farmers will pay into a new independent agency that will take charge of the debt. The agency will then pay the investors, among them the "futures" companies that have indebted many Tajik farmers for years by forcing them to take credits for seeds, fertilizer and fuel, and preventing the farmers from

selling their cotton harvests on the free market. De-linking the borrowers and lenders -- i.e., breaking the corrupted client relationship between producers and investors -- is a key starting point to cotton sector reform. The World Bank and Asian Development Bank will provide start-up capital to the agency. As part of the initial agreement, the investors, including futures companies, must agree to forgive a large portion - roughly half - of the supposed debt. The length of time farmers will need to pay down the debt will depend on how much the investors agree to write off from the overall amount. The program foresees providing farmers with increased land rights as an incentive to cooperate with the debt reduction program. The ongoing USAID Land Reform project will play a key role in reshaping land-use rights legislation to enable this process.

¶4. (SBU) Tajikistan's futures companies will likely embrace the plan, because it means they will recover at least part of the funds they claim are owed them. They understand that under the current circumstances, farmers have no chance at repaying more than a fraction of the \$300 million they borrowed for crop inputs. In cotton-dependent districts, futures companies exert enormous influence and power, pressuring farmers and local officials to forego alternate crops and grow cotton, no matter what the consequences for the farmers' financial position. During a recent visit to Panj district along the Tajik-Afghan border (Ref A), PolOff witnessed giant mounds of unprocessed cotton piled up at the Panj cotton ginning facility. The district chairman cancelled his long-planned meeting with PolOff to meet instead with the head of the only futures company that invests in Panj, who made an impromptu trip south at the same time. Other local officials were reluctant to discuss the futures company's role, except to admit it would be better if the farmers could borrow money, instead of seeds and fuel at a rate set by the investor.

We Need a Roadmap for Donor Cooperation

DUSHANBE 00000239 002.2 OF 002

¶5. (SBU) The Asian Development Bank presented a draft cotton sector roadmap to the government December 9. Contrary to previous reporting (Ref B), Christensen informed EconOff that the World Bank never actually signed off on the Asian Development Bank version of the roadmap, which all other donors approved. The government responded positively to the roadmap, which outlines government reforms and donor assistance activities necessary to reform the cotton sector. Disagreement among donors also exists on the future role of the so-called "Independent Commission" -- the advisory body originally created to make recommendations on cotton sector reforms. The World Bank supports the government which wishes to close down the body as quickly as possible; while other donors see a continued role for the commission in overseeing implementation of the roadmap. Continued bickering amongst donors puts reforms at risk. Without a united front among donors, the government may be inclined to ignore the conditionality tied to the more difficult reform efforts under the roadmap.

The World Bank Pushes On

¶6. (SBU) Although the World Bank has not signed off on the Roadmap, it is implementing a \$15 million project in support of the cotton sector reforms. Unreported and closely-held aspects of the World Bank project include a credit line to lure international investment into ginning operations; seed processing linked to ginneries; and International Finance Corporation investment in four districts in the Khatlon region. The World Bank is considering sending Gerry Boyle as an interim presidential advisor on cotton, per President Rahmonov's request (Ref B). Boyle serves as a professor at the National University of Ireland and has worked as a presidential advisor on

agricultural economics in Ireland. The project will not develop producer associations as initially envisioned, focusing instead on debt resolution, policy reform, and public awareness of the debt resolution program. The \$15 million program does not include the funds for the debt resolution component, which the World Bank and Asian Development Bank will try to fund separately.

17. (U) Comment: After the development banks submit their debt resolution plan to the government for review, the government will present the plan to the Independent Commission, which is when sparks should really fly. As the dysfunctional Panj District farming situation shows, major changes are needed to reform the cotton sector. Thus, while the plan is far from perfect, it represents Tajikistan's best chance to rid itself of this lingering cotton debt. End Comment.
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